

Associated Press

Ahead of the Bell: House mulls aid plan

WASHINGTON

As Congress weighs remedies for a worsening mortgage crisis, a House panel plans to examine possible relief for struggling homeowners through bankruptcy law changes.

At a hearing scheduled for 3 p.m. EDT Tuesday, a House Judiciary subcommittee, chaired by California Democrat Linda Sanchez, plans to debate legislation she proposed that would allow bankruptcy judges to modify the terms of some home loans.

"Responsible lenders who made loans on reasonable terms have nothing to worry about in bankruptcy court, but predatory lenders will end up with the loans they should have made in the first place," Rep. Brad Miller, D-N.C., who is sponsoring the bill with Sanchez, said last week.

Under current rules, mortgage lenders can move to foreclose against a homeowner in default 90 days after the filing of bankruptcy.

Slated to testify at the commercial and administrative law subcommittee hearing are Marilyn

Morgan, a bankruptcy judge in California; John Rao, an attorney with the National Consumer Law Center; Eric Stein, president of the Center for Community Self-Help, and Steve Bartlett, president and CEO of the Financial Services Roundtable, which represents major financial institutions including investment banks.

Democratic lawmakers are grappling with solutions for the upheaval in the high-risk mortgage market. As many as 2.5 million adjustable-rate mortgages are set to jump from very low initial teaser rates to far steeper levels this year and next.

Costly prepayment penalties have made it difficult for some homeowners to get out from under the burden of their mortgages, and many overstretched homeowners can't afford to refinance or sell their homes in a weakening market.

Turbulence in financial and credit markets in recent weeks was sparked by rising defaults and foreclosures of so-called subprime mortgages for borrowers with tarnished credit histories, casting a shadow over the economy and raising the specter of recession.

Last week, the House approved legislation to expand government backing of mortgages by the Federal Housing Administration in hopes of helping hundreds of thousands of homeowners avoid foreclosure.

The Senate is considering a similar bill. The FHA now backs some 3.7 million loans in the event of default but the size of mortgages the agency can insure is often too small to attract borrowers in expensive real estate markets, such as California and the Northeast. The House-passed bill would raise the limit to as much as \$729,750 in high-cost areas compared with the current \$362,000 ceiling.